HARVEY WOODS LIMITED ANNUAL REPORT 1978

TO THE SHAREHOLDERS

EARNINGS Your Directors submit herewith the Annual Report of the Consolidated Operations of your Company for the year ended December 31, 1978. Net income for the year was $895,000, which compares with $780,000 for 1977, after provision for depreciation of $320,000 in 1978 and $270,000 in 1977. It should be noted that taxes on income for the year ended December 31, 1978, have been reduced by $91,000 ($85,000 in 1977) as a result of the 3% allowance on opening inventory.

1978 REVIEW During the first nine months, market softness and consequent reduction in unit sales was reported. The 10% increase in fourth quarter dollar sales over the fourth quarter a year ago resulted in the improved year end position. Income per share was 33¢ (1977 - 29 ¢).

1979 PROSPECTS As of this date, both bookings and shipments are ahead of last year's levels, and it is anticipated that improved market share will result from a concerted effort for greater distribution. National advertising and sales promotion will continue to support your Company's products in both the Harvey Woods and Jockey Divisions.

The 1977 Annual Report made reference to two factors that could influence your Company's future.

> Low cost imports and Canada's ability to negotiate bilateral agreements with low wage and/or state trading countries.

Canada has negotiated three-year bilateral agreements with 15 of the most potentially disruptive low cost countries and this has resulted in a degree of confidence and optimism throughout the industry. The textile industry will be required to re-establish the need for renewal of these bilateral agreements upon their expiration.

> The Tokyo Round of the GATT free trade negotiations were under way in Geneva.

GATT negotiations have been concluded. The Government has yet to disclose the outcome with respect to tariff reductions on clothing and textiles. It is to be hoped that the consultative task force recommendation on clothing and textiles - "that textiles be exempt in their entirety from GATT negotiations" - has been given serious consideration.

In 1978, the capital expenditure budget was $639,000. This included $139,000 committed but unspent in 1977, along with the $500,000 1978 allocation. Actual expenditures in 1978 were $531,000. Planned 1979 outlays amount to $608,000 ($500,000 budgeted under our five-year capital expenditure program, plus the additional committed and unspent balance from 1978) of which 90% is for our manufacturing operations.

LONG TERM DEBT Long term debt was reduced by $203,000 in 1978 and particulars of the debt outstanding are provided in the notes to the Consolidated Financial Statements.

WORKING CAPITAL Working Capital increased $517,000 in the year and at December 31, 1978 stood at $5,198,000. Details of the source and application of funds are shown in the Consolidated Statement of Changes in Financial Position.

SUBSIDIARIES

THOMSON RESEARCH ASSOCIATES LIMITED

Revenue increased during the year from continued expansion of materials testing, agency chemicals and germicide sales. The introduction of the name "Dura-Fresh" has been well accepted in Canada and the name now appears on the products of a number of other companies, in addition to Harvey Woods' and Jockey underwear, hosiery and sportswear.

KROY UNSHRINKABLE WOOLS LIMITED

The Kroy treatment has been an accepted standard for shrinkproofing wool in Canada for many years. A year ago, the International Wool Secretariat endorsed an improved Kroy process and Kroy machine. During the past year, three international license agreements have been negotiated. Mechanical and chemical problems have not yet permitted commercial processing to commence through these machines. It is expected that these difficulties will be overcome in the near future and that international processing will commence by mid year.

Although royalty income from this source will not materially affect your Company's earnings in 1979, the demand for an improved wool shrinkproofing treatment is demonstrated by interest in the Kroy process shown by wool processors world wide. This interest indicates that three additional license agreements may be negotiated by the end of 1980 and that by that time, six Kroy machines could be commercially productive, in which event royalty income will be significant. It should be emphasized however, that royalties are dependent upon a number of factors, among which are the successful acceptance of the process and the successful operation of these machines.

Both Subsidiary Companies continue to receive research and development support in the form of grants from the Federal Government, through the National Research Council and the Department of Industry, Trade and Commerce.

ACKNOWLEDGEMENTS Mr. J. W. Walker, Q.C. will retire from the Board of Directors at the next annual meeting. For the past ten years, as a director and for many years prior to that as counsel, his dedication and support have been vital to the Company's progress. His understanding and assistance will be greatly missed by the Board and management of the Company.

We express our appreciation to all Harvey Woods and Subsidiary Companies' employees for their support and cooperation. It is only through them and their individual contribution that the Company's continued progress can be realized.

On Behalf of the Board of Directors
J. D. Woods, Chairman.
R. W. Meeke, President.

March 9, 1979
Toronto, Ontario

AUDITORS' REPORT

To the Shareholders of Harvey Woods Limited

We have examined the consolidated balance sheet of Harvey Woods Limited as at December 31, 1978, and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1978, and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson Gordon & Co.
Chartered Accountants

London, Canada.
February 20, 1979.

HARVEY WOODS LIMITED

(Incorporated under the laws of Ontario)

CONSOLIDATED BALANCE SHEET (as at December 31)

(in thousands of dollars)

ASSETS	1978	1977
Current:		
Cash	$ 3	$ 5
Accounts receivable	3,974	2,903
Inventories (note 2)	7,099	6,646
Prepaid expenses	208	105
Total current assets	11,284	9,659
Note receivable	22	
Fixed:		
Land	40	40
Buildings	1,381	1,319
Equipment	4,121	3,771
	5,542	5,130
Less accumulated depreciation	3,764	3,551
Total fixed assets	1,778	1,579
Total	$13,084	$11,238

On behalf of the Board

Roland W. Meeke, Director — John A. Young, Director

(See accompanying notes)

(in thousands of dollars)

LIABILITIES AND SHAREHOLDERS' EQUITY	1978	1977
Current:		
Due to bankers - demand loan (note 3)	$ 2,947	$ 2,512
Accounts payable	1,573	1,071
Accrued charges	930	846
Deferred revenue	82	
Taxes payable	351	351
Portion of long-term debt due within one year	203	198
Total current liabilities	6,086	4,978
Long-term debt (note 4)	591	795
Deferred taxes	157	111
Minority shareholders' interest	10	9
Shareholders' equity:		
Capital —		
Authorized:		
3,500,000 common shares without par value		
Issued and fully paid:		
2,677,072 common shares	1,938	1,938
Retained earnings	4,302	3,407
	6,240	5,345
Total	$13,084	$11,238

(in thousands of dollars)		
LIABILITIES AND SHAREHOLDERS' EQUITY	**1978**	**1977**
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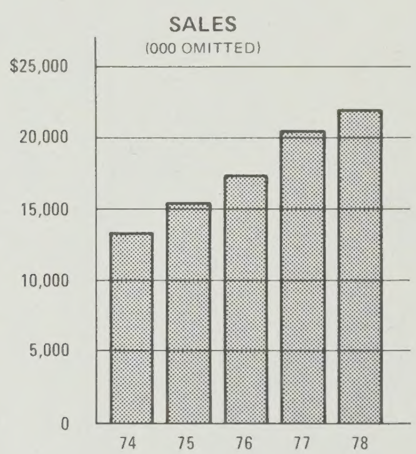
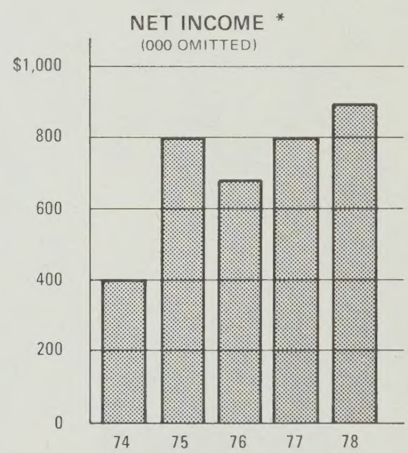
Accrued charges	**930**	846
Deferred revenue	**82**	
Taxes payable	**351**	351
Portion of long-term debt due within one year	**203**	198
Total current liabilities	**6,086**	4,978
Long-term debt (note 4)	**591**	795
Deferred taxes	**157**	111
Minority shareholders' interest	**10**	9
Shareholders' equity:		
Capital —		
Authorized:		
3,500,000 common shares without par value		
Issued and fully paid:		
2,677,072 common shares	**1,938**	1,938
Retained earnings	**4,302**	3,407
	6,240	5,345
Total	**$13,084**	$11,238

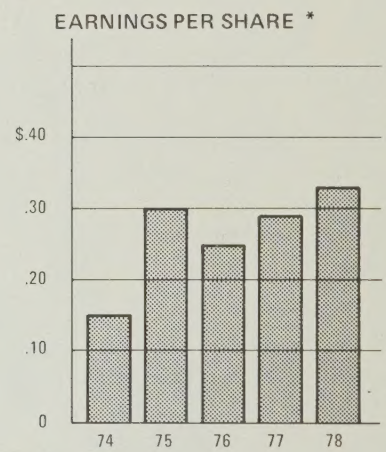
CONSOLIDATED STATEMENT OF INCOME (year ended December 31) (in thousands of dollars)

	1978	1977
Sales	**$22,086**	$20,748
Expenses:		
Cost of sales	**15,483**	14,651
Marketing, general administration and shipping expenses	**4,312**	4,045
Depreciation	**320**	270
Interest - long-term debt	**88**	102
- other	**353**	378
	20,556	19,446
Operating income	**1,530**	1,302
Minority interest in income of subsidiary company	**5**	4
Income before income taxes	**1,525**	1,298
Income taxes - current (note 5)	**584**	466
- deferred	**46**	52
	630	518
Net income	**$ 895**	$ 780
Income per share	**$ .33**	$ .29

(See accompanying notes)







* before extraordinary items

CONSOLIDATED STATEMENT OF RETAINED EARNINGS (year ended December 31) (in thousands of dollars)

	1978	1977
Balance, beginning of year	**$3,407**	$2,627
Net income	**895**	780
Balance, end of year	**$4,302**	$3,407

(See accompanying notes)

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION (year ended December 31) (in thousands of dollars)

	1978	1977
Source of working capital:		
Operations —		
Net income	$ 895	$ 780
Add items not involving an outlay of funds:		
Depreciation	320	270
Minority interest in earnings of subsidiary	5	4
Provision for deferred income taxes	46	52
	1,266	1,106
Sale of fixed assets	12	46
	1,278	1,152
Application of working capital:		
Reduction in long-term debt	203	198
Purchase of fixed assets	531	355
Note receivable	22	
Dividends paid to minority shareholders	5	5
	761	558
Increase in working capital	517	594
Working capital, beginning of year	4,681	4,087
Working capital, end of year	$5,198	$4,681

(See accompanying notes)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of significant accounting policies

The financial statements of the Company have been prepared by management in accordance with generally accepted accounting principles consistently applied. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. These have been made using careful judgement and in the light of information available up to February 20, 1979. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below:

(a) Principles of consolidation —

The consolidated financial statements include the accounts of the company and its subsidiaries, Thomson Research Associates Limited, Kroy Unshrinkable Wools Limited, Kroy Inc. and York Knitting Mills (1966) Limited. All material intercompany accounts and transactions have been eliminated.

(b) Inventories —

Inventories are stated at the lower of cost and market. Cost is computed using currently adjusted standards which approximate actual cost on a first-in, first-out basis. Market value is defined as follows:

Raw material — replacement cost
Work in process and finished goods — net realizable value

(c) Fixed assets —

Fixed assets are stated at historical cost. Depreciation is provided on a diminishing balance basis at rates which amortize the cost over their estimated useful life, as follows:

Buildings	— 5%
Equipment	— 20%

(d) Deferred income taxes —

Income taxes charged to income represent both the portion currently payable and the portion which is deferred due to claiming capital cost allowance for tax purposes in amounts which exceed depreciation recorded in the accounts. The resultant deferrals of income tax are reflected on the balance sheet as deferred income taxes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

2. Inventories

	1978	1977
Finished goods	**$3,782,000**	$3,883,000
Work in process	**1,726,000**	1,455,000
Raw materials and supplies	**1,591,000**	1,308,000
	$7,099,000	$6,646,000

3. Bank indebtedness

As at December 31, 1978, bank indebtedness amounted to $2,947,000 by way of a demand loan and $527,965 in term loans as described in note 4. The company has pledged its accounts receivable and inventories as security and has also issued, to the bank, demand debentures totalling $4,500,000 secured by fixed and floating charges ranking subsequent to the security given under mortgages described in note 4.

Under the terms of the security, the company cannot pay dividends without the prior approval of the debenture holder.

4. Long-term debt

Bank term loans —	1978	1977
(i) bearing interest at a rate of 1½% above the bank's prime rate, repayable in equal monthly principal instalments of $7,060, to April, 1982, and insured as to the repayment to the extent of 90% by the General Adjustment Assistance Board (GAAB)	**$282,400**	$367,120
(ii) bearing interest at a rate of 1½% above the bank's prime rate, repayable in equal monthly instalments of $1,605, to May, 1983, insured by GAAB as to repayment to the extent of 90% and secured by a chattel mortgage on certain equipment	**85,065**	104,325
(iii) bearing interest at 10%, repayable after the other term loans have been fully repaid	**160,500**	160,500
	527,965	631,945
Other —		
(i) 8½% first mortgage bonds, issued to the company's bankers, secured by a first mortgage on the company's lands, buildings, machinery and equipment and a first floating charge on its other assets, repayable by monthly instalments of $2,900 plus interest	**87,900**	122,700
(ii) 8½% second mortgage issued to the Ontario Development Corporation, secured by a second mortgage on the company's lands, buildings, machinery and equipment and a second floating charge on its other assets, repayable by monthly blended payments of principal and interest of approximately $6,400, maturing July, 1981	**178,766**	238,280
	794,631	992,925
Less portion due within one year included in current liabilities	**203,460**	198,294
	$591,171	$794,631

Principal repayments in the years 1979 to 1983 are $203,000, $209,000, $166,000, $47,000, and $168,000 respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont.)

5. Income taxes

Taxes on income for the year ended December 31, 1978 have been reduced by $91,000 as a result of the 3% allowance on opening inventory.

6. Remuneration of directors and senior officers

Aggregate direct remuneration paid by the companies, during 1978 to directors and senior officers as defined by Section 178 of The Ontario Business Corporations Act amounted to $363,000 (1977 – $347,000).

7. Anti-Inflation program

Effective October 14, 1975, the Federal Government passed the Anti-Inflation Act and subsequently issued Regulations which were in force until December 31, 1978. Under this legislation, the company was subject to mandatory compliance with controls on prices, profit margins, employee compensation and shareholder dividends. It is management's opinion that the company has complied with the intent of the legislation and that no significant liability will arise.

8. Commitments

The company is committed to fixed asset purchases amounting to approximately $400,000.

FIVE YEAR FINANCIAL REVIEW (in thousands of dollars)

	1978	1977	1976	1975	1974
Operating results:					
Sales	**$22,086**	$20,748	$17,291	$15,563	$13,280
Income before extraordinary items	**895**	780	675	796	401
Net income	**895**	780	675	1,065	698
Financial position:					
Working capital	**5,198**	4,681	4,087	3,790	2,967
Total assets	**13,084**	11,238	11,001	8,781	8,197
Long term debt	**794**	993	1,187	1,375	1,562
Shareholders' equity	**6,240**	5,345	4,565	3,890	2,825
Capital expenditures	**531**	355	537	290	464
Income per share:					
– before extraordinary items	**.33**	.29	.25	.30	.15
– after extraordinary items	**.33**	.29	.25	.40	.26

Footnote:

Income per share figures have been calculated and adjusted on the basis of common shares now issued according to the arrangement effected in 1975 for changes in the capital structure.

Directors

W. D. Bean
P. G. Beattie Q. C.
G. D. Birks
N. H. Cruickshank
A. Davidson
R. W. Meeke
G. E. Renison
T. F. Snelgrove
J. D. Woods
John A. Young

Officers

J. D. Woods
Chairman of the Board

R. W. Meeke
President

John A. Young
Vice President and Secretary-Treasurer

Head Office

18 Vansittart Avenue, Woodstock, Ontario

Sales Executive Offices

Harvey Woods Division - 74 Victoria Street, Suite 625, Toronto, Ontario
Jockey Division - 74 Victoria Street, Suite 621, Toronto, Ontario

Transfer Agents

The Royal Trust Company

Auditors

Clarkson, Gordon & Co.

Bankers

The Toronto-Dominion Bank

Counsel

McCarthy & McCarthy

Operating Locations

Toronto:	Kroy Unshrinkable Wools Limited
	Thomson Research Associates Limited
Woodstock:	Underwear, Hosiery and Sportswear Manufacturing Divisions

Branch Sales Offices

Vancouver — Edmonton — Winnipeg — Toronto — Montreal — Quebec

Products

Hosiery — Underwear — Sweaters — Sportswear

HARVEY
WOODS

JOCKEY®

kroy*

DURA FRESH

™ John Newcombe

Harvey Woods

HARVEY WOODS LIMITED
WOODSTOCK, ONTARIO

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Harvey Woods

HARVEY WOODS LIMITED

SIX MONTHS' REPORT 1978

JOCKEY®

CONSOLIDATED STATEMENT OF INCOME

(Unaudited)

	Six Months (in thousands) 1978	1977
Sales	$10,056	$ 9,412
Expenses:		
Cost of sales	7,373	6,905
Marketing, general administration and shipping expenses	1,958	1,797
Depreciation	166	145
Interest - long term debt	42	54
- other	143	178
	9,682	9,079
Operating income	374	333
Minority interest in income of subsidiary company	1	(3)
Income before income taxes	373	336
Income taxes - current	99	78
- deferred	20	26
	119	104
Net income for six months	$ 254	$ 232

NOTE: Income per common share

Quarterly statements are necessarily b
when the results for the full year are
of 1977 have been restated accordingly

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(Unaudited)

	Six Months (in thousands) 1978	1977
Source of Working Capital		
Operations:		
Net income for six months	$ 254	$ 232
Depreciation	166	145
Minority interest in earnings of subsidiary	1	(3)
Deferred income taxes	20	26
	441	400
Other:		
Sale of fixed assets	5	23
	446	423
Application of Working Capital		
Reduction in long term debt	101	99
Purchase of fixed assets	250	177
	351	276
Increase in working capital	95	147
Working capital, beginning of year	4,681	4,087
Working capital, end of six months	$4,776	$4,234

1978	1977
$ .09	$ .09

partly on estimates and are subject to adjustment
mined and audited. Results for the first six months

HARVEY WOODS LIMITED

SIX MONTHS' REPORT 1978

TO THE SHAREHOLDERS:

The Unaudited Consolidated Statements of Income and Changes in the Company's Financial Position for the period January 1, 1978 and ended July 1, 1978 are submitted herewith.

Dollar sales for the first six months of 1978 were 7% ahead of last year, although unit sales were down slightly. Beginning with the second quarter there was an improvement in shipments resulting in increased earnings when compared with the same year ago period. Bookings year to date are also ahead, a trend we expect will continue through the second half.

The contract between the Company and its Union expires on August 31, 1978 and negotiations have commenced towards the development of a new collective agreement.

The Federal Government has made progress and concluded bilateral agreements with seven low cost countries which will restrain imports for the next three years and possibly beyond. It is essential, however, that recommendations previously presented to the Canadian Trade and Tariffs Committee, 'that textiles and apparel be exempted in their entirety from negotiations of tariffs in the Tokyo Round' be adopted. Your Company has actively and strongly supported this position.

On Behalf of the Board of Directors,

J. D. Woods, Chairman.

R. W. Meeke, President.

Toronto, Ontario
August 29, 1978